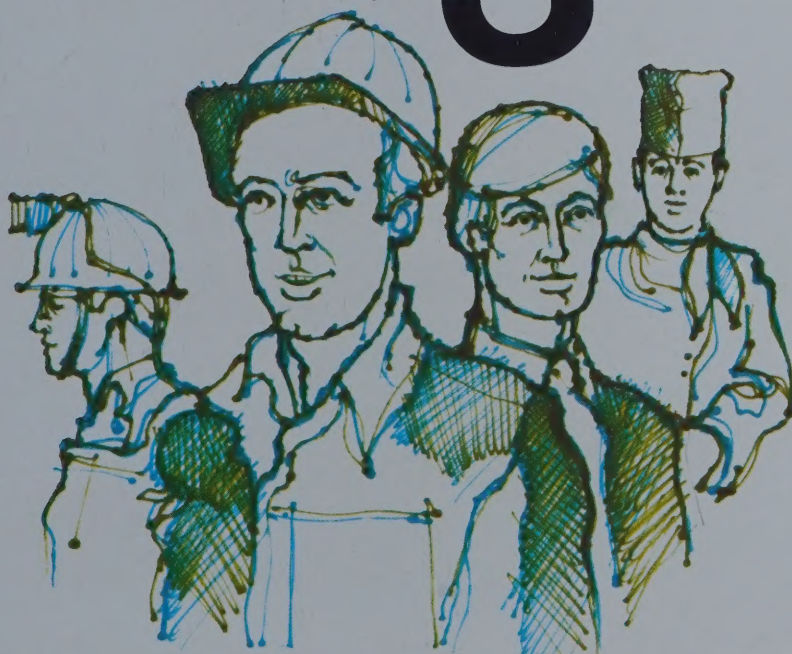


1973

Annual Report



Canadian Pacific Investments Limited

Principal Subsidiary Companies

Canadian Pacific Investments Limited

Head Office:
Room 347, Windsor Station,
Montreal, Quebec

Marathon Realty Company Limited

S. E. Eagles, President

Head Office:
Toronto-Dominion Centre,
P.O. Box 375,
Toronto, Ontario

Canadian Pacific Hotels Limited

D. W. Curtis, President

Head Office:
Royal York Hotel,
Toronto, Ontario

Pacific Logging Company Limited

W. M. Sloan, President

Head Office:
468 Belleville Street,
Victoria, British Columbia

Canadian Pacific Securities Limited

D. E. Sloan, President

Head Office:
Room 247, Windsor Station,
Montreal, Quebec

CanPac Leasing Limited

R. G. Hunkin, President

Head Office:
Suite 939, Place du Canada,
Montreal, Quebec

***Cominco Ltd.**

F. E. Burnet, Chairman

Head Office:
200 Granville Square,
Vancouver, British Columbia

***PanCanadian Petroleum Limited**

R. W. Campbell, Chairman

Head Office:
One Palliser Square,
125 — 9th Avenue S.E.,
Calgary, Alberta

***The Great Lakes Paper Company, Limited**

C. J. Carter, President

Head Office:
Thunder Bay, Ontario

Fording Coal Limited

M. N. Anderson, President

Head Office:
Trail, British Columbia

CanPac Minerals Limited

M. N. Anderson, President

Head Office:
Natural Resources Building,
205 — 9th Avenue S.E.,
Calgary, Alberta

MAR 28 1974

*A copy of the 1973 annual report of this company
can be obtained by writing to its Secretary at the head office address shown

This annual report is available in both the English and French language. If you wish to obtain an additional copy, kindly indicate below and return the self-addressed card with your name and address.

Le rapport paraît en anglais et en français. Si vous en désirez un autre exemplaire, veuillez remplir la carte et nous la renvoyer.

- ☐ Please send an English copy of your annual report.
☐ Veuillez m'envoyer un exemplaire du rapport annuel en français.

Name
Nom

Address
Adresse

City
Ville

Province

Postal
Code
Postal

Principal Subsidiary Companies

Canadian Pacific Investments Limited

Head Office:
Room 347, Windsor Station,
Montreal, Quebec

Marathon Realty Company Limited

S. E. Eagles, President

Head Office:
Toronto-Dominion Centre,
P.O. Box 375,
Toronto, Ontario

Canadian Pacific Hotels Limited

D. W. Curtis, President

Head Office:
Royal York Hotel,
Toronto, Ontario

Pacific Logging Company Limited

W. M. Sloan, President

Head Office:
468 Belleville Street,
Victoria, British Columbia

Canadian Pacific Securities Limited

D. E. Sloan, President

Head Office:
Room 247, Windsor Station,
Montreal, Quebec

CanPac Leasing

R. G. Hunkin, President

Head Office:
Suite 939, Place d'Armes,
Montreal, Quebec

***Cominco Ltd.**

F. E. Burnet, Chairman

Head Office:
200 Granville Square,
Vancouver, British Columbia

***PanCanadian Petroleum Limited**

R. W. Campbell, Chairman

Head Office:
One Palliser Square,
125 — 9th Avenue S.E.,
Calgary, Alberta

***The Great Lakes Paper Company, Limited**

C. J. Carter, President

Head Office:
Thunder Bay, Ontario

Fording Coal Limited

M. N. Anderson, President

Business Reply Mail

No postage stamp necessary if mailed in Canada

Correspondance-réponse d'affaires

Se poste sans timbre au Canada

Postage will be paid by
Port payé par le destinataire

G. S. MacLean, Secretary,
Canadian Pacific Investments Limited,
P.O. Box 6042, Station A,
Montreal, Canada
H3C 3E4



MAR 28 1974

Contents

Inside front cover	Principal Subsidiary Companies
2	Directors and Officers
3 - 8	Review of the Year
10 - 11	Summary of Significant Accounting Policies
12	Statement of Consolidated Income
13	Statement of Consolidated Retained Income and Statement of Consolidated Source and Application of Funds
14 - 15	Consolidated Balance Sheet and Auditors' Report to the Shareholders
16 - 19	Other Financial Information
20	Notes to Financial Statements
Inside back cover	Five-Year Summary



Notice of Annual and Special General Meeting of Shareholders

The Annual and a Special General Meeting of the Shareholders of Canadian Pacific Investments Limited will be held on Friday, April 26th, 1974, at Le Château Champlain, Place du Canada, Montreal, Quebec, at 11:00 A.M. (daylight saving time, if operative), for the following purposes:

- a. to receive the Report of the Directors, accompanying Consolidated Financial Statements and Report of the Auditors thereon, for the year ended December 31st, 1973;
- b. to consider and, if deemed fit, to sanction By-law No. 12, enacted by the Board of Directors on January 31st, 1974, changing the name of the Company to Canadian Pacific Investments Limited in English or Investissements Canadien Pacifique Limitée in French and authorizing an application to the Minister of Consumer and Corporate Affairs for the issue of Supplementary Letters Patent confirming the same;
- c. to consider and, if deemed fit, to sanction By-law No. 13, enacted by the Board of Directors on March 7th, 1974, increasing the number of Directors of the Company from nine to twelve;
- d. to elect directors;
- e. to appoint the Auditors and to authorize the Board of Directors to fix their remuneration; and
- f. to transact such other business as may properly come before the meeting.

The Board of Directors has by resolution fixed the time, before which proxies to be used at the Annual and Special General Meeting or any adjournments thereof must be deposited at Montreal, Quebec, with the Company or the Montreal Trust Company as Agent for the Company, at twenty-four hours, excluding Saturdays and holidays, preceding the Annual and Special General Meeting or any adjournments thereof.

By order of the Board,
G. S. MacLean, Secretary.

Montreal, March 7th, 1974.

Directors

*†W. A. Arbuckle,
Chairman of the Canadian Board,
The Standard Life Assurance Company,
Montreal

*F. S. Burbidge,
President,
Canadian Pacific Limited, Montreal

F. E. Burnet,
Chairman and Chief Executive Officer,
Cominco Ltd., Vancouver

*†A. M. Campbell,
Chairman,
Sun Life Assurance Company of Canada,
Montreal

R. W. Campbell,
Chairman of the Board and Chief Executive Officer,
PanCanadian Petroleum Limited,
Calgary

†S. E. Nixon,
Chairman,
Celanese Canada Limited, Montreal

†H. M. Pickard,
Chairman and Chief Executive Officer,
Marathon Realty Company Limited,
Calgary

*The Hon. Duff Roblin, P.C., C.C.,
President,
Canadian Pacific Investments Limited,
Montreal

*Ian D. Sinclair,
Chairman and Chief Executive Officer,
Canadian Pacific Limited, Montreal

*Member of Executive Committee

†Member of Audit Committee

Transfer Agent and Registrar

Montreal Trust Company, Montreal, Toronto, Winnipeg,
Regina, Calgary and Vancouver

Stock Listings

Preferred Shares, Series A:
Montreal, Toronto and Vancouver Stock Exchanges

Common Shares:
Montreal, Toronto and Vancouver Stock Exchanges

Officers

Ian D. Sinclair,
Chairman and Chief Executive Officer,
Montreal

The Hon. Duff Roblin, P.C., C.C.,
President,
Montreal

W. J. Stenason,
Executive Vice-President,
Montreal

P. A. Nepveu,
Vice-President Finance and Accounting,
Montreal

G. S. MacLean,
Secretary,
Montreal

D. E. Sloan,
Treasurer,
Montreal



Strong Performance in 1973

1973 was a year of prosperity and progress for the Company. Surging demand for oil and gas, minerals and forest products and a higher than average rate of growth in the Canadian economy were reflected in the year's activities and results.

Earnings and dividends, compared with 1972, were:

	1973	1972
Net income (millions)	\$ 77.8	\$ 44.3
Per Common share:		
Net income	\$ 1.45	\$ 0.79
Dividends	0.53	0.4733

The consolidated financial statements of the Company for 1973 include, for the first time, full consolidation of all subsidiary companies. Previously the equity method of accounting was followed for Cominco, Great Lakes Paper, Fording Coal and CanPac Minerals. Figures for 1972 have been restated to the new basis. The change to full consolidation has no effect on amounts reported in prior years for consolidated net income and shareholders' equity.

In view of the substantial conversions of Preferred shares to Common, arrangements were made to list the Common shares on the Montreal, Toronto and Vancouver stock exchanges and trading commenced on December 18.

Another Good Year Likely in 1974

There are no reliable guidelines to suggest how, or how quickly, the economies of the free world will adjust to higher cost energy. More than the usual uncertainties thus surround any forecast of future business trends. For a company such as ours, however, the situation offers at least as many opportunities as problems. The year 1974 will no doubt bring a full measure of surprises – both pleasant and unpleasant – but a review of the present prospects of each operating sector leads to the conclusion that the Company will have another good year.

Indications point to continued growth in the petroleum industry, notwithstanding the difficulties created by changes and uncertainties in governmental oil policies.

Cominco sees strong demand for chemical fertilizer and metallurgical products in 1974. The outlook for profitable operations of Fording Coal in 1974 depends mainly on satisfactory negotiation of the price for coal in the new contract year beginning April 1 and maintenance of production at planned levels.

Within the forest products group, growth in consumption of newsprint and pulp seems likely to tax the capacity of the industry for some time. It is anticipated, therefore, that earnings of Great

Lakes Paper in 1974 will improve substantially, even though production and transportation costs are increasing. In contrast, logging and lumbering profits of Pacific Logging are expected to be lower than in 1973, based on signs of weakening in United States, Japanese and United Kingdom markets.

Conditions seem favourable for an increase in net income of Marathon Realty in 1974.

CP Hotels is looking forward to another year of growth, both in earnings and in development activities.

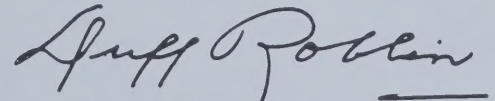
The forecast of increased equipment expenditures by Canadian industry enhances the prospects of CanPac Leasing.

Dividend income from major portfolio investments, including the recently acquired Algoma Steel shares, is expected to be up over 1973.

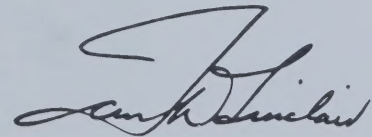
Officers and Employees

Success such as the Company enjoyed in 1973 gives a sense of satisfaction to all whose efforts contributed to it. It also gives powerful stimulus to greater achievement. The Directors therefore not only express their appreciation to all officers and employees for past accomplishments, but voice their confidence that the capabilities of staff at all levels will be energetically directed towards the Company's goals for the future.

For the Directors,



President



Chairman and Chief Executive Officer

Montreal, March 7, 1974.



Panarctic Oils exploration activity in the Arctic Islands.



Oil and Gas

PanCanadian Petroleum Limited

PanCanadian carried out an aggressive exploration program in 1973. Expenditures for geophysical surveys and exploration and development drilling increased to \$27.3 million from \$24.7 million in 1972. The major portion of the funds was spent in Canada, from the western Arctic to the waters off the east coast. The company is now participating in a four-well exploratory program off Nova Scotia. In addition, PanCanadian continued its exploration activities in the Gulf Coast states and Rocky Mountain areas of the United States and in the North Sea where a high level of drilling activity is currently going on. Its international exposure was extended through the undertaking of seismic surveys in selected geological basins of South America, Honduras, Africa and Indonesia.

Through its purchase of TransCanada Petroleum Limited, PanCanadian acquired valuable interests in production, processing and transporting facilities for natural gas liquids.

Preliminary plans have been announced by PanCanadian for construction of a \$45 million ammonia plant in which it will have a 60% ownership. The natural gas to supply the plant will come from PanCanadian's proven reserves.

The development of shallow gas reserves in southern Alberta was a highly successful part of the company's 1973 program. This project will be continued in 1974.

Changes during the year in estimated net proven and probable reserves are indicated in the following comparative year-end figures:

	1973	1972
Crude oil and natural gas liquids – million barrels	206.8	215.9
Natural gas – billion cubic feet	2,225	1,627
Sulphur – million long tons	3.6	3.9

Substantial increases in production, the inclusion of income from the TransCanada Petroleum's interests purchased, and product price increases accounted for a record level of gross revenues, cash generation and net income in 1973. Increased selling prices were negotiated during 1973 for 57% of PanCanadian's average daily contracted volumes of gas. Major benefits will accrue from this in 1974 and subsequent years.

The market value of the Company's PanCanadian holding, representing an 87.11% interest, was \$363.7 million at the end of 1973 based on the closing market price of \$13%.

Panarctic Oils Ltd.

Through its two subsidiaries, PanCanadian Petroleum and Cominco, Canadian Pacific Investments has a 12.7% net interest in Panarctic Oils Ltd.

During 1973 Panarctic continued successful exploration in the Arctic Islands. Discoveries of natural gas were made on Melville Island and on Thor Island.

Mines and Minerals

Cominco Ltd.

After minority interest, the Company's net income from Cominco, included in net income from mines and minerals, amounted to \$23.4 million in 1973 compared with \$11.3 million in 1972. A record production of zinc was achieved and zinc and lead prices improved throughout 1973. Demand for fertilizers also strengthened during the year and prices began to recover in markets served by Cominco. Cominco's American operations and the 69%-owned Pine Point Mines Limited contributed significantly to the year's better earnings.

The Black Angel Mine of Greenex A/S in Greenland was completed and production came on stream ahead of schedule in the fourth quarter. Greenex is wholly owned by Vestgron Mines Limited, in which Cominco holds a 61.5% interest.

Detailed studies and tests are continuing in connection with the Polaris property of Arvik Mines Ltd., located on Little Cornwallis Island in the Canadian high Arctic. The Polaris ore body is estimated to contain in excess of 20 million tons of high-grade zinc-lead ore. Arvik Mines Ltd. is 75% owned by Cominco.

Cominco announced the formation during the year of a subsidiary to mine diamonds and to provide technical assistance to independent diamond diggers in the Central African Republic.

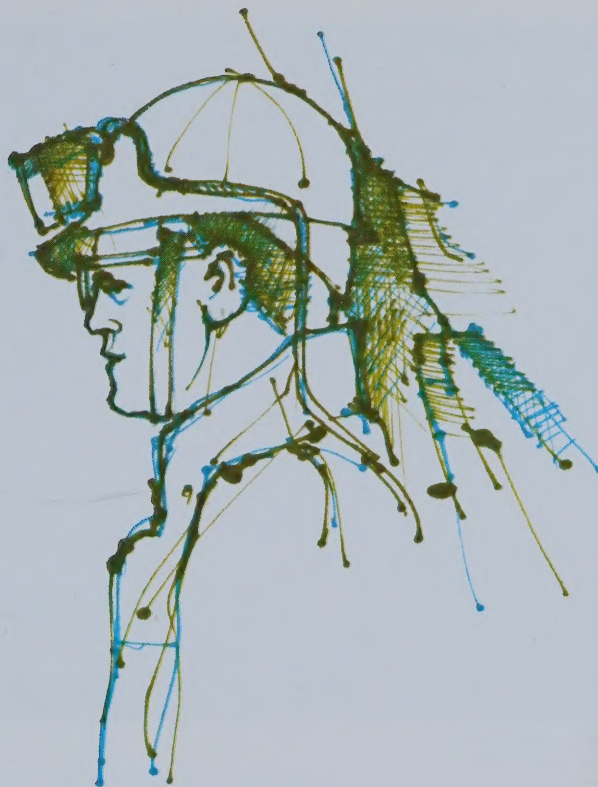
Production resumed at Cominco's potash mine at Vade, Saskatchewan, but as a result of damage to equipment from an electrical fire on January 3, 1974, the mill had to be shut down for more than two months.

The Company's holding of Cominco shares, representing a 54% interest, had a market value of \$311.6 million at the end of 1973, based on the closing market price of \$34 per share.

CanPac Minerals Limited

Additional production of thermal coal and growing demand for potash increased CanPac Minerals' earnings in 1973. The Company's share of these was \$363,000, including its equity in the 40% share taken up by Cominco.

The agreement concluded early in the year with Calgary Power Ltd. for the development of thermal coal reserves in the South Wabamun field was followed by the granting of an option to The Granby Mining Company Limited to acquire CanPac Minerals' interest in a 30,000-acre coking coal property in the southern foothills of Alberta.



Black Angel Mine of
Greenex A/S in Greenland.





Saltair sawmill on Vancouver Island.

Fording Coal Limited

Fording's first year of operations resulted in a loss of \$5.9 million. The Company's share of this was \$4.8 million, including its equity in the 40% share taken up by Cominco.

Much of the benefit from the increase in the coal price negotiated with the purchasers in 1973 was outweighed by the effects of a shortfall from anticipated production levels and consequent higher unit costs. The reasons for this shortfall included operational difficulties with the plant, wildcat strikes at the mine and the mid-year rail strike, and a chronic shortage of labour, particularly of tradesmen. Negotiations on the price for coal in the new contract year are under way.

Forest Products

The Great Lakes Paper Company, Limited

The outstanding events of 1973 for Great Lakes were a strong recovery from the low earnings of the previous year and the launching of a multi-million dollar expansion program.

Increased production and sales of newsprint and pulp at better prices were the chief reasons for the year's higher income. After deducting minority interest, the Company's net income from Great Lakes, included in net income from forest products, amounted to \$4.0 million in 1973 compared with \$834,000 in 1972.

Great Lakes' expansion program is directed at strengthening that company's earnings through diversification and the opening of new markets. The first phase, which will be completed by late 1974 and will cost \$13.5 million, involves con-

struction of a particleboard-waferboard plant and a doubling of the capacity of the present stud mill, which began operations in October, 1973. The second phase will require the expenditure of some \$118 million. This covers construction of a quarter-million-ton bleached kraft pulp mill, to be integrated with existing facilities, and further enlargement of stud lumber capacity. Products from these new facilities are expected by mid-1976.

Maximum use of internal funds is to be made in financing the expansion. In addition, term financing will be provided by CP Securities Limited and a public issue of long term debt is planned.

After purchases of an additional 49,100 shares of Common stock in 1973, the Company held 52.97% of the voting stock of Great Lakes at year end. This holding had a market value of \$47.8 million based on the closing price of \$25 per share.

Pacific Logging Company Limited

Increased production and prices more than offset considerably higher costs and resulted in net income of \$8.4 million for 1973, compared with \$3.4 million in 1972. The full amount of these earnings is included in net income from forest products.

The new sawmill of Saltair Lumber Company, in which Pacific Logging has an 80% interest, had a successful first year of operation.

Pacific Logging is continuing its active forestry program. During the year 3,100 acres were planted with more than 1.5 million trees. Four new seed production plantations were established and 3,000 acres were seeded. Work on fertilization and various phases of the tree improvement program was carried on.

Real Estate

Marathon Realty's first venture into construction for resale was undertaken in 1973. This was the residential development of Arbutus Village in Vancouver. Despite difficulties in obtaining deliveries of materials, Phase I of the development was nearing completion by year end, and almost all the 179 condominium units had been committed for sale. Construction of the commercial and retail space in Arbutus, which Marathon will retain, is well advanced and work has begun on Phase II of the condominium project, which involves construction of some 128 additional units.

The Granville Square office building in Vancouver is operational after nearly a year-long delay because of a strike of elevator installers and it is substantially occupied. Planning for a second office tower to be located within this waterfront development is progressing.

In Calgary, Marathon's Palliser Square office tower and adjoining retail and commercial space were approximately 90% leased by year end.

Agreement was reached during the year with



Arbutus Village residential development in Vancouver.

the City of Peterborough, Ontario, for redevelopment of a large downtown area. Features of this redevelopment are a two-level enclosed shopping mall, a four-storey office building, and a 170-room hotel for CP Hotels Limited. The target date for completion is mid-1975.

Elsewhere Marathon has under construction a variety of new buildings. These include a 15-storey office building in Montreal, in which CP Telecommunications is to be the major tenant; a computer centre in Calgary that is being built for lease to a chartered bank; and a multi-tenant warehouse in Summerlea Industrial Park in Montreal.

During the year Marathon acquired land for development in St. Hubert, Quebec, in downtown Calgary, in the Fraser Valley of B.C. and in Surrey, B.C., near Vancouver. In addition, a modern office building in Barrie, Ontario, was purchased as an investment.

The Metro Centre project in downtown Toronto has been undergoing re-evaluation in the light of changing community attitudes towards urban development, rising costs and the potential effects of the energy situation on public transportation facilities integrated with the project.

Hotels and Food Services

1973 was a successful and eventful year for Canadian Pacific Hotels Limited. Increased revenues and greater efficiency of operations combined to improve net earnings.

Marking its initial venture on the international scene, the company assumed management during the year of two hotels in Mexico, the

Acapulco Royal hotel in Mexico.



368-room Château Royal in Mexico City and the 435-room Acapulco Royal in Acapulco.

The new 312-room Chateau Halifax was opened in January, 1974. This latest addition to the CP Hotel chain is 50% owned and is located in the Scotia Square complex in downtown Halifax, Nova Scotia. Chateau Halifax provides exceptional recreational facilities as well as offering a wide range of accommodation for meetings and social events.

The Royal York in Toronto substantially completed its \$12 million renovation program by year end and entered 1974 with the hotel's many new features proving widely popular. A \$10 million restoration program for historic Le Château Frontenac in Quebec City is now under way and should be completed in 1976.

Food service operations, which include restaurants and airline catering, were significantly expanded during the year.

Construction has begun on a 183-room Red Oak Inn at Thunder Bay, Ontario, with completion scheduled for late 1974. Plans are progressing for the 170-room hotel in Marathon Realty's development in Peterborough, Ontario. CP Hotels' tender for the building and operation of the hotel at the new Mirabel International Airport near Montreal was accepted by the Ministry of Transport. Plans have been completed for construction of a 400-room luxury hotel in Paris and progress was made on the Tel Aviv hotel project. Opportunities for expansion in other major Canadian, European and South American centres continue to be explored.

Finance

CanPac Leasing Limited

The Company purchased CanPac Leasing Limited from Canadian Pacific Limited for \$6 million on May 1, 1973. CanPac Leasing provides a full range of equipment leasing services throughout Canada.

Canadian Pacific Securities Limited

Total borrowings of this company in 1973 increased by \$50 million. These funds are available to meet some of the financing requirements of the Canadian Pacific Investments' group of companies and for money market operations.

Investment Income

The principal addition to the investment portfolio in 1973 was 2.9 million voting shares of common stock of The Algoma Steel Corporation, Limited purchased in September. Additional shares were later purchased on the open market, giving the Company slightly more than a 25% interest at year end. Dividend income from this investment amounted to \$1.1 million in 1973.

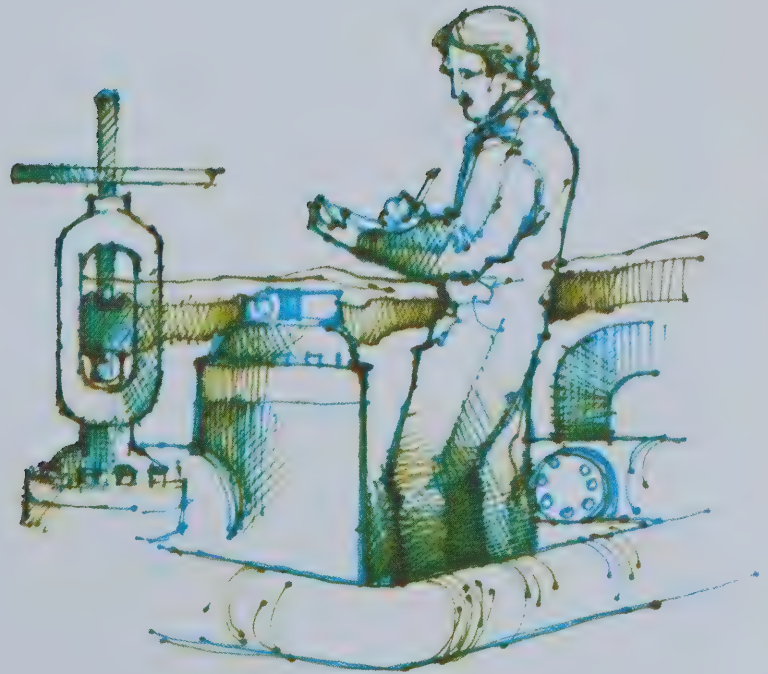
During the year the Company disposed of its 50% interest in Bow River Pipe Lines Limited and its holdings in The Investors Group. Investments in Husky Oil Ltd. and Canada Northwest Land Limited were reduced. A number of preferred stocks, having a total book value of \$13 million, were also sold. The net gain on these transactions is reported in Extraordinary Items.

Increased dividends on the holdings of MacMillan Bloedel Limited, Consolidated-Bathurst Limited and Rio Algom Mines Limited accounted for approximately \$2 million of additional investment income.

Stock Holdings

At December 31, 1973 there were 16,298 registered shareholders of the Preferred shares, Series A, of whom 98.2% were Canadian registrants. At year end 53,971,600 Common shares were outstanding, of which 50,000,000 were owned by Canadian Pacific Limited and the remainder by 3,895 shareholders, of whom 99.1% were Canadian registrants.

Financial Statements



Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements for 1973 include the accounts of all subsidiary companies. The principal subsidiaries, classified by line of business, are as follows:

		Percentage ownership
Oil and gas	PanCanadian Petroleum Limited	87.11%
Mines and minerals	Cominco Ltd.	54%
	Fording Coal Limited	60% CPI and 40% Cominco
	CanPac Minerals Limited	
Forest products	Pacific Logging Company Limited	100%
	The Great Lakes Paper Company, Limited	52.97%
Real estate and related operations	Marathon Realty Company Limited	100%
Hotels and food services	Canadian Pacific Hotels Limited	100%
Finance	Canadian Pacific Securities Limited	100%
	CanPac Leasing Limited (acquired from Canadian Pacific Limited early in 1973)	100%

In 1972, the investments in Cominco, Great Lakes Paper, Fording Coal and CanPac Minerals were accounted for on the equity method, and the comparative financial statements have been restated to give effect to full consolidation of these companies. This change results in the elimination of investments in these partly-owned subsidiaries from the balance sheet and their replacement by the assets and liabilities of these companies. It has no effect on amounts previously reported for consolidated net earnings and shareholders' equity.

Investments in companies in which an interest of 50% or less is held, and which are deemed to be corporate joint ventures, are accounted for on the equity method.

The excess of cost of CPI's investment in Great Lakes Paper over the book value of the underlying equity in net assets, amounting to \$29 million, is presently carried in Other Assets pending completion of a study to determine the appropriate allocation of this amount.

With the exception of interest, (amounting in 1973 to \$9,352,000), there are no significant inter-company charges among the CPI group companies. In the statement of consolidated income, in order to present fairly the results by activity, these interest charges have not been eliminated. CPI's net income is not affected by this practice.

The interest of outside shareholders in the net income from mines and minerals is more than 50% of the total income because of minority interests in certain subsidiaries of Cominco Ltd., a 54% subsidiary of CPI.

Foreign Exchange

Current assets and current liabilities have been translated from foreign currencies into Canadian dollars at current rates. Fixed assets and accumulated depreciation and long term debt have been translated at historical rates. Revenues and expenses (except depreciation, which is translated at historical rates) have been translated at average rates in effect during the year. Gains or losses on exchange are included in income.

Inventories

Raw materials and products of mining operations are valued generally at the lower of cost (determined on the monthly average method) and net realizable value. Stores and materials are valued at cost less appropriate allowances for obsolescence.

Other inventories (principally related to forest product operations) are valued at the lower of cost (generally average cost) and net realizable value.

Lease revenue

The excess of aggregate rentals less lease acquisition costs over the cost of leased assets is recorded as income over the term of the lease in decreasing amounts pro-rata to the declining balance of the investment not yet recovered. All leases are fully funded and gains arising from residual values of leased assets are reflected in earnings only when realized.

Accounting for oil and gas properties

The full cost method of accounting is followed for oil and gas properties, whereby all costs related to the exploration for and the development of oil and gas reserves are capitalized. Such costs are depleted by the unit of production method based on estimated proven oil and gas reserves.

Accounting for mining properties

Expenditures on general mineral exploration are charged to expenses as incurred. Expenditures on investigating identified properties and developing mines are capitalized.

Capitalized expenditures, together with the costs of certain investments in mining companies, are amortized against earnings by charges for depletion based on the mineral resources position.

Accounting for real estate properties

Land is carried at or below cost. Development costs and carrying costs, net of incidental revenue, are capitalized for land currently being developed or on which development is expected within five years, providing the book value of the land does not exceed market value. Carrying costs of all other land are included in operations.

Buildings and construction in progress are carried at cost, including interest during construction, pre-completion operating costs less any revenue, and other direct development expenses.

The sinking fund method of providing for depreciation is used for major real estate developments. The sinking fund method will write off the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually. Under this method depreciation charged to income in later years will be substantially higher than the amount charged in earlier years.

Accounting for other properties

Depreciation and amortization of other properties are charged to earnings, generally on the straight-line basis, over the estimated economic lives of the facilities involved.

Pensions

In addition to current service costs, charges to income include annual payments on account of past service liabilities. Such liabilities are being funded in equal annual instalments to 1989 and 1991.

Income taxes

The companies follow the tax allocation basis of accounting for income taxes. For timing differences relating to oil and gas exploration and drilling expenditures, the practice of providing deferred taxes at an estimated rate has been consistently followed, although it is the general practice in the oil and gas industry to make no provision for taxes so deferred. If current effective rates had been used, deferred taxes for 1973 would have been \$3,000,000 greater (1972 – \$2,700,000) and the cumulative total to December 31, 1973 would have been increased by \$21,700,000. Various provincial securities commissions in Canada have recently questioned the appropriateness of not following tax allocation procedures with respect to drilling, exploration and lease acquisition costs. The commissions have indicated that unless, as the result of a study now being prepared by the industry, they are satisfied with the basis for departing from such procedures, companies in the oil and gas industry should be prepared to adopt tax allocation accounting effective in 1974 in respect of these costs.

Earnings per share

Earnings per common share are calculated using the weighted average number of shares outstanding during the year. Fully diluted earnings per share are calculated on the assumption that all preferred shares are converted and all warrants exercised at the beginning of the year and that a return of prime bank rate on the proceeds of the exercise of warrants is obtained.

Statement of Consolidated Income

For the Year ended December 31

1973

1972

(in thousands)

Oil and Gas	Gross operating revenue	\$ 75,374	\$ 47,271
	Expenses including income taxes	51,074	32,027
		24,300	15,244
	Interest of outside shareholders	3,038	1,883
	Net income	21,262	13,361
Mines and Minerals	Gross operating revenue	565,354	328,468
	Expenses including income taxes	519,750	303,923
		45,604	24,545
	Interest of outside shareholders	25,428	13,078
	Net income	20,176	11,467
Forest Products	Sales and operating revenue	143,291	106,169
	Expenses including income taxes	127,001	101,196
		16,290	4,973
	Interest of outside shareholders	3,853	773
	Net income	12,437	4,200
Real Estate and Related Operations	Gross rentals and other income	35,384	32,709
	Expenses including income taxes	30,672	29,344
	Net income	4,712	3,365
Hotels and Food Services	Gross operating revenue	67,937	56,621
	Expenses including income taxes	64,254	53,661
	Net income	3,683	2,960
Finance	Gross operating revenue	19,797	14,388
	Expenses including income taxes	19,202	14,276
	Net income	595	112
Investment Income	Gross income	10,524	7,694
	Expenses including income taxes	1,803	838
	Net income	8,721	6,856
	Income before Extraordinary Items	71,586	42,321
	Extraordinary items after income taxes	6,207	1,936
	Net Income	\$ 77,793	\$ 44,257
Earnings per Common Share	Income before extraordinary items	\$1.33	\$0.75
	Net income	1.45	0.79
Fully Diluted Earnings per Common Share	Income before extraordinary items	1.15	0.68
	Net income	1.25	0.71

See Other Financial Information and Notes to Financial Statements on Pages 16 to 20.

Statement of Consolidated Retained Income

For the Year ended December 31		1973	1972
		(in thousands)	
	Balance, January 1	\$179,435	\$163,601
Add:	Net income for the year	77,793	44,257
		257,228	207,858
Deduct:	Dividends		
	4¾% Preferred shares	4,674	4,696
	Common shares	27,650	23,727
		32,324	28,423
	Balance, December 31	\$224,904	\$179,435

Statement of Consolidated Source and Application of Funds

For the Year ended December 31		1973	1972
		(in thousands)	
Source of Funds	Income before extraordinary items	\$ 71,586	\$ 42,321
	Add		
	Depreciation, depletion and amortization	86,464	62,763
	Deferred income taxes	24,244	13,204
	Outside shareholders' interest in income of subsidiaries	32,319	15,734
	Funds from operations	214,613	134,022
	Sale of investments	23,083	11,587
	Capital stock issued		
	Common		
	Issued	\$38,448	
	Less: Conversion of preferred shares	<u>38,166</u>	4
	Issuance of long term debt	147,618	100,470
	Proceeds from disposal of properties	11,388	7,380
	Working capital of subsidiaries acquired and consolidated	5,012	—
	Decrease in working capital	37,206	(38,597)
		\$439,202	\$214,866
Application of Funds	Additions to investment portfolio	\$ 65,693	\$ 13,928
	Additions to other investments	5,174	(6,967)
	Additions to properties	134,231	122,516
	Additions to lease receivables	16,017	—
	Reduction in long term debt	129,158	29,184
	Dividends declared	32,324	28,423
	Dividends paid outside shareholders of subsidiaries	16,916	13,630
	Investment in subsidiaries acquired and consolidated	38,092	—
	Sundries (net)	1,597	14,152
		\$439,202	\$214,866

See Other Financial Information and Notes to Financial Statements on Pages 16 to 20.

Consolidated Balance Sheet

Assets

December 31

1973

1972

(in thousands)

Current Assets	Cash and temporary investments, at cost (approximates market)	\$ 181,223	\$ 73,533
	Deposits and demand loans (interest-bearing) –		
	Canadian Pacific Limited and subsidiaries	74,390	80,674
	Dividends and other accrued interest receivable	2,117	1,802
	Accounts receivable	124,776	91,055
	Inventories	121,073	93,224
	Prepaid expenses	6,627	9,489
		510,206	349,777
Receivables under Leases	Amount due under lease agreements after one year	38,220	—
	Less: Deferred income	9,512	—
		28,708	—
Investments, at cost	Portfolio (market value \$292,528,000; 1972 – \$225,652,000)	276,735	229,474
	Other	57,519	52,345
		334,254	281,819
Properties, at cost	Oil and gas	350,199	283,870
	Mines and minerals	718,427	680,408
	Forest products	235,607	220,034
	Real estate and related operations	174,693	159,910
	Hotels and food services	82,899	77,137
		1,561,825	1,421,359
	Less: Accumulated depreciation, depletion and amortization	506,481	443,004
		1,055,344	978,355
Other Assets		83,715	71,125
		\$2,012,227	\$1,681,076

**Auditors' Report
To the Shareholders
of Canadian Pacific
Investments Limited:**

We have examined the consolidated balance sheet of Canadian Pacific Investments Limited and subsidiary companies as at December 31, 1973 and the statements of consolidated income, consolidated retained income and consolidated source and application of funds for the year then ended. Our examination of the financial statements of Canadian Pacific Investments Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied upon the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change from equity accounting to consolidation as described in the Summary of Significant Accounting Policies, on a basis consistent with that of the preceding year, subject to possible adjustments which may result in the future from resolution of the matters referred to in the third paragraph of Note 3 and in the first paragraph of Note 4.

Price Waterhouse & Co.,
Chartered Accountants
Montreal, Quebec, March 6, 1974.

See Other Financial Information and Notes to Financial Statements on Pages 16 to 20.

Consolidated Balance Sheet

December 31

Liabilities**1973**

1972

(in thousands)

Current Liabilities

Bank loans	\$ 6,468	\$ 13,900
Accounts payable and accrued charges –		
Canadian Pacific Limited	5,277	2,695
Other	97,127	78,634
Notes and accrued interest payable	144,202	107,448
Income and other taxes payable	40,716	8,867
Dividends payable	15,112	12,198
Long term debt maturing within one year	133,349	20,874
	442,251	244,616

Deferred Liabilities

6,650 6,333

Long Term Debt

462,582 416,375

Outside Shareholders' Interest in Subsidiary Companies

PanCanadian Petroleum Limited	16,633	15,110
Cominco Ltd.	196,154	184,405
The Great Lakes Paper Company, Limited	18,054	14,707
	230,841	214,222

Deferred Income Taxes

141,149 116,527

Shareholders' Equity

Capital stock		
Preferred shares		
Authorized – 12,500,000 shares of a par value of \$20 each		
Issued – 3,031,019 (1972 – 4,939,308) 4¾% Cumulative Redeemable Convertible Voting, Series A	60,620	98,786
Common shares		
Authorized – 100,000,000 shares without nominal or par value		
Issued – 53,971,600 (1972 – 50,134,864) shares	361,430	322,982
Paid-in surplus	81,800	81,800
Retained income	224,904	179,435
	728,754	683,003
	\$2,012,227	\$1,681,076

Approved on behalf of the Board:

Ian D. Sinclair, Director

Duff Roblin, Director

Other Financial Information

		1973	1972
		(in thousands)	
Depreciation, Depletion and Amortization Charged to Expenses	Oil and gas	\$ 18,813	\$ 13,992
	Mines and minerals	52,221	35,076
	Forest products	10,005	8,334
	Real estate and related operations	2,096	2,212
	Hotels and food services	3,329	3,149
The amount of depletion charged to income for the year 1973 was \$25,676,000 (1972 – \$18,912,000) and the accumulated depletion at December 31, 1973 was \$131,292,000.			
		\$ 86,464	\$ 62,763
Interest Expense		1973	1972
		(in thousands)	
	Interest on long term debt	\$ 41,074	\$ 25,561
	Interest on short term debt	7,365	6,032
		\$ 48,439	\$ 31,593
Income Taxes		1973	1972
		(in thousands)	
	Oil and gas	\$ 8,459	\$ 5,696
	Mines and minerals	45,141	15,121
	Forest products	16,429	4,956
	Real estate and related operations	3,003	1,548
	Hotels and food services	3,471	2,520
	Finance	428	3
		76,931	29,844
	Extraordinary items	(207)	(540)
	Total (including deferred income taxes of 1973 – \$24,037,000; 1972 – \$13,474,000)	\$ 76,724	\$ 29,304
Extraordinary Items		1973	1972
		(in thousands)	
	Net gain on disposal of interest in CanPac Minerals Limited	\$ —	\$ 1,425
	Gain on sale of land	1,349	—
	Net gain on disposal of investments after income taxes	4,858	1,078
	Loss on sale of mill by Cominco after income taxes and minority interest	—	(567)
		\$ 6,207	\$ 1,936

Other Financial Information

		1973	1972
		(in thousands)	
Inventories	Oil and gas		
	Product	\$ 2,681	\$ 427
	Stores and materials	228	455
		2,909	882
	Mines and minerals		
	Raw materials and products	71,653	58,234
	Stores and materials	23,994	18,163
		95,647	76,397
	Forest products		
	Raw materials and products	10,823	10,798
	Stores and materials	5,113	4,084
		15,936	14,882
	Real estate and related operations		
	Condominiums held for sale	5,063	—
	Stores and materials	162	153
		5,225	153
	Hotels and food services		
	Materials and supplies	1,356	910
		\$121,073	\$ 93,224

Investment Portfolio
as at December 31, 1973

	Number of Shares	Percentage of outstanding voting shares	Cost	Approximate market value
(in thousands)				
Common Stocks				
The Algoma Steel Corporation, Limited	2,982,111	25.70	\$ 59,605	\$ 60,761
Husky Oil Ltd.	354,000	3.66	4,053	7,788
MacMillan Bloedel Limited	2,574,800	12.33	74,775	83,359
MICC Investments Ltd.	410,500	8.95	1,880	6,158
Northern and Central Gas Corporation Limited	358,200	2.67	5,015	3,940
Rio Algom Mines Limited	1,210,869	9.88	28,280	41,472
TransCanada PipeLines Limited	1,200,000	12.97	44,613	36,750
Union Carbide Canada Limited	825,300	8.25	18,375	14,030
Other			5,804	6,505
			242,400	260,763
Preferred Stocks			20,870	19,776
Bonds, Debentures and Notes			13,465	11,989
			\$276,735	\$292,528

Other Financial Information

	1973		1972	
	(in thousands)			
Properties and Accumulated Depreciation, Depletion and Amortization	Cost	Accumulated depreciation, depletion and amortization	Net	Net
Oil and gas				
Equipment	\$ 69,605	\$ 26,592	\$ 43,013	\$ 21,223
Petroleum, natural gas and mineral properties	280,594	73,674	206,920	181,889
	350,199	100,266	249,933	203,112
Mines and minerals				
Land, buildings and equipment	564,993	211,055	353,938	345,878
Mining properties and development	153,434	50,599	102,835	102,364
	718,427	261,654	456,773	448,242
Forest products				
Land and improvements	2,204	—	2,204	2,151
Buildings and equipment	175,148	102,392	72,756	68,136
Timberlands, leases and licences	58,255	10,963	47,292	45,422
	235,607	113,355	122,252	115,709
Real estate and related operations				
Land	40,210	—	40,210	35,741
Buildings	131,528	9,782	121,746	115,277
Construction in progress	2,955	—	2,955	1,233
	174,693	9,782	164,911	152,251
Hotels and food services				
Land	2,690	—	2,690	2,690
Buildings and equipment	80,209	21,424	58,785	56,351
	82,899	21,424	61,475	59,041
	\$1,561,825	\$506,481	\$1,055,344	\$978,355

Long Term Debt

	1973	1972
	(in thousands)	
Canadian Pacific Investments Limited		
Promissory note due 1974	\$14,601	\$ —
Promissory note due 1975	14,511	—
5.7% Income Debentures due 1974	20,000	—
Bank loan due 1974	18,000	—
Canadian Pacific Hotels Limited		
8½% First Mortgage Sinking Fund Bonds, Series A due 1992	20,000	20,000
Sundry — due 1974-1977	1,249	986
Canadian Pacific Securities Limited		
7% bank loan due 1979	25,000	25,000
9½% Sinking Fund Debentures due 1990	25,000	25,000
9¾% Sinking Fund Debentures due 1990	40,000	40,000
8¼% Sinking Fund Debentures due 1993	15,000	—
CanPac Leasing Limited		
Bank loans due 1974-1980	26,305	—
Cominco Ltd.		
8½% Sinking Fund Debentures due 1991	65,000	65,000

Other Financial Information

		1973	1972
		(in thousands)	
Long Term Debt (continued)	Subsidiaries of Cominco Ltd.		
	Sundry indebtedness	\$ 86,251	\$ 57,874
	Fording Coal Limited		
	Bank loans due 1974	60,000	60,000
	Export-Import Bank of the United States 6% loan repayable semi-annually to 1977	7,110	9,058
	The Great Lakes Paper Company, Limited		
	First Mortgage Bonds –		
	4% Sinking Fund bonds, series A, maturing 1975	4,199	5,380
	8% Sinking Fund bonds, series B, maturing 1989	18,700	19,170
	Debentures –		
	5¾% serial debentures, series C, maturing 1974-1975	2,150	3,225
	Marathon Realty Company Limited		
	Sundry loans and mortgages payable 1974-1997	3,137	6,672
	Bank loans	17,200	7,400
	Foundation-Scottish Properties Limited (a subsidiary of Marathon Realty Company Limited)		
	6½% First Mortgage Bonds maturing 1995, sinking fund payments 1974-1994	9,805	10,371
	Pacific Logging Company Limited		
	Bank loans due 1974-1978	3,588	7,218
	PanCanadian Petroleum Limited		
	Bank loans due 1974-1981	49,125	24,895
	8½% Sinking Fund Secured Debentures due 1992	25,000	25,000
	8¾% Sinking Fund Secured Debentures due 1992	25,000	25,000
		595,931	437,249
	Less: Long term debt maturing within one year	133,349	20,874
Annual maturities and sinking fund requirements for each of the five years following 1973 are: 1974, \$133,349,000; 1975, \$65,299,000; 1976, \$38,444,000; 1977, \$28,397,000; 1978, \$25,482,000.			
Except where otherwise indicated, interest on bank loans fluctuates with the lender's prime commercial rate.			
At December 31, 1973, foreign currency long term debt translated at current rates would be \$67,662,000, which is \$1,780,000 less than the amount at which it is carried above.			
		\$462,582	\$416,375

Notes to Consolidated Financial Statements

1. Capital Stock

Each preferred share, series A, is convertible at the option of the holder to November 1, 1977 into two common shares, and is redeemable at CPI's option at \$20 per share.

At December 31, 1973, 4,966,362 warrants for the purchase of common shares were outstanding. Each warrant entitles the holder to purchase one common share at \$14 per share on or before November 1, 1974. In 1973 a total of 3,836,736 common shares was issued consisting of 20,158 shares on exercise of warrants and 3,816,578 shares on conversion of preferred shares.

2. Pensions

At December 31, 1973 there were unfunded liabilities, determined by actuarial surveys, of \$5,241,000 which is being funded by equal annual payments to 1989 and \$9,900,000 which is being funded by equal annual payments to 1991.

3. Commitments and Contingencies

At December 31, 1973 commitments for capital expenditures amounted to \$38,296,000 and commitments under long term leases were estimated at \$6,828,000.

Sundry guarantees and claims were estimated at \$15,180,000.

Cominco Ltd. is disputing certain income tax assessments involving possible additional taxes aggregating \$2,100,000 for the six years ended December 31, 1973. No provision has been made in respect of these taxes in the financial statements.

4. Other Assets

Rehabilitation of Cominco's potash mine following the flooding in 1970 was completed by March 1973 when commercial production resumed. Legal counsel have advised that in their opinion there are good grounds for establishing liability against the contractors and legal proceedings are in progress to recover the loss. Accordingly, the cost of \$10,156,000 for rehabilitation is included in Other Assets in the balance sheet.

In addition, Other Assets include the \$29,452,000 excess of cost of shares in Great Lakes Paper over the book value of the underlying equity in net assets and \$11,783,000 unamortized value of gas processing contracts referred to elsewhere in the accounts.

5. Directors' and Officers' Remuneration

Aggregate remuneration paid to persons who served as directors and officers of CPI as was as follows:

	1973		1972
	(9 directors, 3 of whom were officers)		(9 directors, 3 of whom were officers)
	As Directors	As Officers	As Directors
Paying Company			
CPI	\$ 30,000	\$148,000	\$ 23,000
Cominco Ltd.	36,000	296,000	35,000
Other subsidiaries, principally PanCanadian	15,000	85,000	16,000

6. Acquisitions

Details of acquisitions during the year are as follows:

	CanPa Limited	
	May 1, 1973	
Net current assets	\$ 1,190,000	
Receivables under leases	16,590,000	
Petroleum and gas interests and production equipment		
Excess of purchase price over book values, assigned to gas processing contracts (included in Other Assets)		
	17,787,000	48,673,000
Liabilities (principally bank loans)	11,787,000	16,581,000
Cash paid for all issued shares	\$ 6,000,000	\$32,092,000

CanPac Leasing Limited was incorporated by Canadian Pacific Limited to engage in equipment leasing. Trans-Canada Petroleum Limited operates in the oil and gas industry.

7. Subsequent Events

Cominco purchased 492,400 shares (7.6% of the outstanding shares) of Tara Exploration and Development Company Limited (Tara) for \$11,150,000 and on February 15, 1974, offered to purchase all the remaining issued shares of Tara for cash at \$25 each. Cominco has arranged adequate bank credit to provide for payments that may be required under the offer.

On January 29, 1974 PanCanadian entered into an agreement with Tyler Ammonia Alberta Ltd. to construct an ammonia plant which will be owned 60% by PanCanadian and 40% by Tyler. It is estimated that the plant will cost \$45,000,000 and will be completed late in 1976. Financing for PanCanadian's share of this project is presently being negotiated. The commitment to build the plant is conditional upon the fulfilment of certain conditions by each company by May 1, 1974.

Five-Year Summary

	1969	1970	1971	1972	1973
Figures in thousands, except amounts per share					
Consolidated Income					
Oil and gas	\$ 11,500	\$ 10,641	\$ 12,644	\$ 13,361	\$ 21,262
Mines and minerals	13,807	13,447	7,506	11,467	20,176
Forest products	3,110	1,683	3,358	4,200	12,437
Real estate and related operations	2,071	1,595	1,456	3,365	4,712
Hotels and food services	864	877	2,402	2,960	3,683
Finance	128	126	105	112	595
Investment income	9,474	9,423	5,264	6,856	8,721
Income before extraordinary items	40,954	37,792	32,735	42,321	71,586
Extraordinary items	3,158	1,510	3,043	1,936	6,207
Net Income	\$ 44,112	\$ 39,302	\$ 35,778	\$ 44,257	\$ 77,793
Dividends – Preferred shares	\$ 4,724	\$ 4,713	\$ 4,705	\$ 4,696	\$ 4,674
– Common shares	23,032	23,706	23,718	23,727	27,650
Number of Shares Outstanding					
Common	50,078	50,088	50,120	50,135	53,972
Preferred	4,964	4,959	4,947	4,939	3,031
Per Common Share					
Income before extraordinary items	\$.72	\$.66	\$.56	\$.75	\$ 1.33
Net income	.78	.69	.62	.79	1.45
Dividends	.46	.4733	.4733	.4733	.53
Investments at year end					
Portfolio	\$264,621	\$271,709	\$224,360	\$229,474	\$ 276,735
Properties	616,949	681,569	926,670	978,355	1,055,344

1973 Annual Report Canadian Pacific Investments Limited